STATE OF CALIFORNIA

CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

TO: Board of Directors
California Power Authority

FROM: Kellan Fluckiger, Advisor

DATE: April 9, 2002

SUBJECT: SUMMARY OF CPUC PROCUREMENT OIR SCOPING MEMO AND IMPORTANT ISSUES FOR THE CPA

On April 2nd, President Lynch issued a scoping memo in the Procurement OIR at the PUC. (01-10-024). In this proceeding the PUC will create a transition for the IOUs to get back into the power purchasing business, and will allocate the DWR contracts to the Utilities. There are a number of key policy positions and requests for input articulated by the PUC in this memo that may affect the mission and activities of the CPA.

1. The role of the CPUC to ensure just and reasonable rates has not changed, regardless of all the other changes in the electric landscape.
2. The CPUC has a mandate to assure development of a divers portfolio of energy supply in the state, including both efficiency improvements and renewable resources.
3. The previous Integrated Resource Planning process, including the Bienniel Resource Plan Update was never formally discontinued.
4. Utility Procurement plans should incorporate:
   a. DWR contracted quantities
   b. CPA efforts to develop reserve capacity.
5. The proceeding will have a dual focus.
   a. Short-Term Needs:
      i. Milestones needed to ensure that the IOUs return to purchasing obligations by 1/1/03.
      ii. Maximizing development of renewables as much as possible in the short-term with focus on the states short-term energy needs
   b. Long-Term Needs
      i. Utilities and Commission staff to begin integrated resource assessment
      ii. Identification of new resource needs for cost-savings or reliability in a five-year time-frame
6. No affiliate transactions will be considered for the short-term
7. A balancing account approach with annual true-ups similar to fuel-adjustment accounts is preferred for cost recovery of additional net-short purchases
8. Input is requested on a policy framework for advance review and approval of purchases to minimize after-the-fact reasonableness changes.

9. Demand-side options should be considered and presented by the parties. This includes existing programs and new programs. The Commission notes, however, that demand programs are under consideration in R.00-10-002 and energy efficiency is being addressed in R.01-08-028.
10. Any new programs or products must be accompanied by detailed recommendations including how the PUC should judge the reasonableness of the program as compared to other options.
11. Net short procurement may begin earlier than 1/1/03 if utilities are ready.
12. DWR contracts will be assigned geographically essentially by point of delivery.

Given the statutory responsibilities articulated for the CPA in on legislation, and the goals we have articulated in our Investment Plan, there are a number of areas that the CPA may need to consider in our input to this proceeding.

1. Design and operation of demand response programs including
   a. Benefits of aggregation
   b. Benefits of system-wide application
   c. Cost/benefit evaluation of demand programs vs. other peak options
   d. Integration with existing ISO markets and functions.
   e. Cost recovery options.
2. Renewable procurement opportunities and benefits including
   a. Low-cost financing opportunities
   b. Benefits of portfolios
   c. Economies of scale for larger purchases.
   d. Reasonableness standards for renewable purchase contract approval
   e. Strategic benefits such as diversity and security.
3. Appropriate reserve levels for reliability and price stability, for both the short-term and the long-term process.
4. Renewable Portfolio Standard approaches, such as mandatory set-asides, or other renewable targets.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development.	Rulemaking 01-10-024

ASSIGNED COMMISSIONER'S RULING ESTABLISHING CATEGORY AND PROVIDING SCOPING MEMO

Pursuant to Rules 6(c)(2) and 6.3 of the Commission's Rules of Practice and Procedure, this ruling designates the category of this proceeding, the need for hearing, and the principal hearing officer and also provides a scoping memo confirming and clarifying the issues and schedule discussed at the prehearing conference (PHC) held on January 8, 2002. This ruling is appealable only as to category of this proceeding under the procedures in Rule 6.4.

1. 1. Summary

This ruling sets forth a process and schedule for utilities to submit forecasts of the costs they will incur when they resume procurement of energy and reserves to serve their electric customers. Under this schedule, the Commission will adopt a forecast of procurement costs and a cost recovery mechanism no later than October of this year. In addition, I request submittals from utilities and other parties on acquiring renewable resources in the near term, and direct the utilities and Staff to prepare long-term resource plans which consider generation, demand-side and transmission resources.

2. Background

Prior to late 1970s, virtually all the power needed to meet the electric demand in California was generated by the large investor-owned utilities. With the OPEC oil embargoes and delays and cost overruns experienced with nuclear plants in the late 1970s, this practice changed dramatically. As part of a national plan to address the increasing costs and environmental consequences of electricity production, the federal Public Utilities Regulatory Policy Act of 1978 (PURPA) created a class of privately-owned generation called Qualifying Facilities (QF) with the legal right to sell power to the utility at the utility's own avoided cost. To promote the development of these new generation resources, California implemented a series of Standard Offer Contracts to provide QFs with a simple process for obtaining a contract to sell their generation, and to clarify for utilities what was considered reasonable by the Commission. Importantly, these avoided-cost energy prices were fixed for a period of up to ten years to provide price stability to consumers and a stable source of revenues for the QFs, allowing them an opportunity to obtain financing. As a result, the QF industry in California boomed, as many previously stalled generation projects became instantly financible.

As it became clear that QFs would provide the majority of new generation serving utility customers, the Commission established a biennial resource planning process centered on allowing QFs to compete against proposed utility projects. The Commission's Biennial Resource Plan Update (BRPU), replaced the Commission's prior process of reviewing utility resource plans in triennial general rate cases. Under the BRPU, the Commission required utilities to submit resource plans using CEC demand and supply projections as well as other scenarios at the utilities discretion. The Commission would then determine which proposed new utility plants could be supplanted by QF generation - so-called Identified Deferrable Resources (IDRs). QFs were then allowed to bid against the costs of the IDRs.

Similar processes were simultaneously underway at more than 30 state PUCs across the country, integrating cost-effective procurement strategies with objectives such as contingency planning and environmental sensitivity. The approach came to be known as Integrated Resource Planning, defined by the Edison Electric Institute as:

> "A utility planning process which evaluates the costs and benefits of alternative projects and resources available to satisfy anticipated customer demand for electricity...(which) integrates and supply-side and demand-side resources...deals with uncertainty... (by testing) against a variety of worst-case scenarios... (and) is sensitive to environmental issues."

The BRPU included consideration of demand-side management options, transmission limitations and costs, and environmental costs of air emissions. As the process began to gather momentum, however, two events conspired to halt it in its tracks:

- Southern California Edison successfully complained to FERC that the Commission's process was inconsistent with Federal law due to the inclusion of air pollution costs and limiting the competition to QFs.
- The Commission's policy on the acquisition of resources changed as the Commission pursued deregulation. Both the Commission staff report "California's Electric Service Industry: Perspectives on the Past, Strategies for the Future" (the "Yellow Book") and the federal Energy Policy Act of 1992 (EPAct), in their emphasis on market-directed investment decisions, forced reconsideration of the basic approach of the BRPU.

Ultimately the Commission ruled in D.93-06-098 to forestall resource planning. Although no determination was made to eliminate the BRPU process, the passage of AB 1890 in 1996 - under which investment decisions were left to competition, the approach to integrated resource planning contained in the BRPU process was effectively abandoned by the Commission. As proven in early 2000, reliance on market forces and the lack of a policy perspective in this area contributed to the energy crisis of 2000-01.

Much has changed since the Commission first embarked on an integrated resource planning process. But the Commission's role in ensuring that there is a comprehensive and effective approach in planning both the immediate and longer-range resource acquisition of California's electric utilities remains the same. The Commission retains its responsibility to conduct resource planning as follows:

1) **Under § 451 the Commission is required to insure that all utility charges are just and reasonable:**

   - Ch.3 Art. 1 §451: "All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable."

2) **Under § 701.1 the Commission has the responsibility to pursue resource planning for fuel diversity and renewable generation development:**

   - Ch. 4 Art. 1 §701.1 (A) "The Legislature finds and declares that, in addition to other ratepayer protection objectives, a principal goal of electric and natural gas utilities' resource planning and investment shall be to minimize the cost to society of the reliable energy services that are provided by natural gas and electricity, and to improve the environment and to encourage the diversity of energy sources through improvements in energy efficiency and development of renewable energy resources, such as wind, solar biomass, and geothermal energy." (B) "The Legislature first finds and declares that, in addition to any appropriate investments in energy production, electrical and natural gas utilities should seek to exploit all practicable and cost-effective conservation and improvements in the efficiency of energy use and distribution that offer equivalent or better system reliability, and which are not being exploited by any other entity."

3) **The Legislature is considering AB 57, which would require the utilities to submit a procurement proposal and the Commission to adopt a procurement plan prior to the date on which the utilities would resume purchasing power for their retail customers.**

Since January 2001, Edison, SDG&E and PG&E have not purchased power for their customers' net short needs. The Legislature enacted ABX1 1 (Keely) on January 31, authorizing the California Department of Water Resources (DWR) to make electricity purchases for the purpose of selling electricity to utility retail customers. This was necessary for at that time the utilities were not financially able to meet their short term purchase obligations[1[1]] -- the utilities' "net short" needs. *Under the law DWR's authority to contract for such purchases will expire on January 1, 2003.* For the utilities to resume the responsibility to procure power for their customers, the Commission should evaluate their procurement practices, incorporating: 1) the actions of DWR in contracting for power; 2) Power Authority efforts to develop reserve generating capacity;[2[2]] and 3) the cumulative effects of the various DSM programs underway in the state. A comprehensive assessment of the state's immediate and long-term energy requirement, incorporating the many recent changes to the electricity landscape as well as the priorities retained under the P.U. Code, must be developed and implemented to ensure that utilities' procurement activities will best serve California's electric retail customers.

On October 29, 2001, the Commission issued an Order Instituting Rulemaking (OIR), designated as Rulemaking (R.) 01-10-024, to

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[1[1]] Although unable to contract for short term power procurement, the utilities continued to produce power from the generating assets they own and to purchase power that was under long term contract. DWR stepped in to purchase that relatively small amount of power not already under contract to the utilities or generated from a utility-owned asset.

[2[2]] The California Consumer Power and Conservation Financing Authority (Power Authority) was established by SBX1 6 (Burton, Bowen), which was signed into law May 16, 2001. On February 15, 2002, the Power Authority issued its first Energy Resource Investment Plan. In that document, the Power Authority describes its role in ensuring an adequate future reserve of electricity.

(1) establish ratemaking mechanisms to enable California's three major investor-owned electric utilities, Southern California Edison Company (Edison), San Diego Gas & Electric Company (SDG&E), and Pacific Gas and Electric Company (PG&E) to resume purchasing electric energy, capacity, ancillary services and related hedging instruments to fulfill their obligation to serve and meet the needs of their customers, and

(2) consider proposals on how the Commission should comply with Public Utilities Code Section 701.3 (Section 701.3) which requires that renewable resources be included in the mix of new generation facilities serving the state.

A preliminary scoping memo contained in the OIR set a schedule for respondent utilities to file procurement proposals and for interested parties to comment on the proposals, and scheduled a PHC for January 8, 2002. SDG&E and PG&E filed their proposals on November 21, 2001 and Edison late-filed its proposal on November 27, 2001.[3][3] Interested parties requested and were granted a one-week extension until December 21, 2001 to file comments. In their comments, many parties urged the Commission to develop a fully integrated resource planning process but to only decide quickly those issues that need to be in place for the utilities to resume full procurement responsibilities no later than January 1, 2003, as anticipated by Assembly Bill ABX1 1 (Keely).

At the January 8 PHC, assigned administrative law judge (ALJ) Christine M. Walwyn stated that after review of parties' comments, the Commission would narrow the scope of its initial hearings. She then outlined the scope of issues and proposed schedule to be initially addressed here and invited parties' comments. The assigned ALJ also stated that disputes identified by parties in their comments regarding the treatment of confidential information would be

[3][3] I grant here Edison's motion to accept its late-filed proposal.

handled under the Commission's Law and Motion procedures by ALJ Kirk McKenzie, who at the PHC held an initial discussion with parties.

3. Categorization, Need for Hearings, Ex Parte Rules, and Designation of Principal Hearing Officer

In the OIR, the Commission preliminarily categorized this proceeding as ratesetting and stated that any evidentiary hearings that may be required will be limited in scope. We directed that any respondent who objected to the categorization or need for hearing should raise its objections in its November 21, 2001 filing and any other person who objects should raise an objection in December 2001 comments. No party addressed the categorization issue. On the need for hearings, several parties objected, stating they thought written comment would be sufficient for the Commission to address the issues.

I affirm the preliminary categorization of ratesetting, as that term is defined in Rule 5(c). I do not agree that written comment is sufficient. I prefer a fuller evidentiary record here that will allow the Commission to resolve any factual disputes, better coordinate with related proceedings, and afford the Commission and interested parties the opportunity to question sponsoring parties' witnesses. We will limit the scope of issues to be addressed in evidentiary hearing.

In a ratesetting proceeding, Rule 5(k)(2) defines the "presiding officer" as the principal hearing officer designated as such by the assigned Commissioner prior to the first hearing in the proceeding. I designate ALJ Christine M. Walwyn as the principal hearing officer.

The Commission's ex parte rules applicable to this proceeding are set forth in Rules 7(c) and 7.1. These ex parte rules apply to all parties of record and, more broadly, to all persons with an interest in any substantive matter; the broad category of individuals subject to our ex parte rules is defined in Section 1701.1(c)(4).

4. Scoping Memo

In our OIR, the Commission lays out the comprehensive framework of issues that we need to address in establishing policies and cost recovery mechanisms for generation procurement and renewable resource development. I intend to take a two-pronged approach in addressing these complex issues. First, this proceeding will focus on what the Commission needs to decide in order to ensure the utilities successfully resume their obligation to serve and meet the needs of their customers no later than January 1, 2003 and to develop an interim rather than permanent cost recovery mechanism. In addition, I will pursue our mandate under Section 701.3 to promote the development of renewable electrical generation in California to the fullest extent possible within the confines of this proceeding schedule, explicitly emphasizing decisions that must be taken to meet the state's near-term needs. Second, I direct the utilities and the Commission staff to begin to assess long-term resource needs on an integrated basis; parties will be separately noticed of additional efforts for this endeavor. As in the BRPU, these resource plans should focus on identifying new resources that should be added to the system within the next five years for reliability or cost-savings.

4.1 Cost Recovery Mechanism Is the Near-Term Priority

My objectives in developing an interim cost recovery procurement mechanism are to:

- improve the ability of the respondent utilities to meet their obligation to serve their customers' electric loads;
- assure just and reasonable electricity rates;
- enhance the financial stability and creditworthiness of respondent utilities;

- diminish the need for after-the-fact reasonableness reviews of procurement purchases;
- ensure the timely recovery in rates of procurement costs in order to support the credit of the utilities that function as load serving entities; and
- pursue our mandate to promote the development of renewable generation in California.

The written comments of Edison and other parties state that the existing contracts entered into by DWR greatly reduce the procurement needs of the utilities through 2003. Therefore, my expectation is that the size and range of discretionary procurement choices the respondent utilities will need to make in order to serve their customers in the near term are quite limited. With possible exceptions for renewable power that will be discussed below, the interim cost recovery procurement mechanism the Commission develops here will be limited to short-term power products similar to those recommended by the Office of Ratepayer Advocates: spot market purchases, forward and options contracts of up to one year in duration, and ancillary services.[4][4] I expect that these power products include the range of products that the utilities may need to firm up any capacity obligations the Commission may place on them as load serving entities in the ISO Control Area.[5][5]

[4][4] The Commission is currently addressing cost recovery mechanisms for other procurement products in related proceedings. For interruptible programs, the Commission has authorized the utilities to track program costs in excess of those already recovered through existing rates in a memorandum account that is reviewed for reasonableness under a standard of review that "absent incompetence, malfeasance, or other unreasonableness, we would expect to authorize full recovery of all dollars spent by utilities for these programs" (D.01-04-006, mimeo. At page 78); the memorandum accounts are reviewed and recovered in each utility's Annual Earnings Assessment Proceeding (D.01-07-029, Ordering Paragraph 2(b), mimeo. at page 11). A commission decision on the cost recovery mechanism for demand-side management programs is pending in R.01-08-028.

[5][5] The Commission has been participating in discussions on the ISO Market Redesign. The record the Commission develops here would benefit from the participation of the ISO, and I strongly encourage the ISO to become an active party to this proceeding.

The utilities state that a quick review and timely cost recovery process are critical to them. As other parties discuss, incentive mechanisms and affiliate transactions are two matters that do not lend themselves to these objectives. Therefore, in developing an interim procurement mechanism for 2003, parties should not propose to allow transactions with any affiliates of the respondent utilities, not just their own affiliates. Any incentive mechanisms proposed must be transparent and simple to implement to be given any consideration.

I have reviewed each of the utilities' accounting proposals for procurement cost recovery. I find that Edison's proposal is generally consistent with prior Commission cost recovery mechanisms for power purchases and it is therefore a familiar and understood approach to industry, consumer advocates, and the financial community. Edison proposes a procurement cost recovery mechanism that is conceptually similar to the long used and now defunct Energy Cost Adjustment Clause (ECAC) which was established to track fuel and fuel-related costs. Under Edison's proposal, fuel and power procurement costs, including residual net short procurement cost obligations, would be tracked in a balancing account and matched against billed revenues derived from a to-be-established Fuel and Purchased Power rate component.

To ensure timely cost recovery, Edison proposes to file an annual application at the end of the first quarter whereby entries made to the balancing account during the previous year (January 1 through December 31) would be verified by the Commission. Differences between recorded revenues and costs would be trued-up or down based on that review. The annual application would also specify a prospective Fuel and Purchased Power revenue requirement and associated rate during the following calendar year.

In addition to this annual review process, Edison proposes a trigger mechanism, similar to the trigger proposed in Assembly Bill 57, to dispose of balances in the balancing account. If at the end of a month, the balancing account is over- or under-collected by an amount that exceeds 5 percent of recorded generation revenues from the prior year, Edison would file an Advice Letter seeking a rate adjustment. The Advice Letter filing would become effective 60 days from the date it is filed. Lastly, Edison proposes to file an informational Advice Letter on September 1 of each year reporting the recorded operation of the balancing account from January 1 through June 30 of the same year. While this ruling neither approves of nor rejects Edison's proposal, I do want the utilities and parties to know that I am not comfortable with an interim cost recovery proposal that incorporates Advice Letter filings seeking balancing account rate adjustments without conditioning such rate adjustments as subject to refund in a subsequent annual review process. Additionally, as a general rule, I do not favor that call for Advice Letter filings to automatically take effect 60 days from the date the Advice Letter is filed. I note that any potential risks to the utilities has been reduced since most of their resource needs are covered by long-term, fixed price contracts entered into by DWR. In addition, if there were an unanticipated rise in procurement costs, utilities have a right to submit applications for changes in authorized levels between annual proceedings.

I direct the respondent utilities to serve testimony detailing an interim procurement cost recovery mechanism and addressing attendant implementation issues in testimony. I am especially interested in the utilities including in their testimony details on how the Commission should evaluate whether specific purchases of a particular product type are reasonable. PG&E and SDG&E shall propose ECAC-type cost recovery mechanisms similar to that proposed by Edison. Any deviations from the Edison proposal must be thoroughly explained and justified including any benefit or detriment to the ratepayers compared to the Edison proposal. Such proposals should be designed to be consistent with previous Commission decisions regarding cost recovery accounting. I expect parties will respond to the utility cost recovery proposals in rebuttal testimony.

At the PHC, PG&E, Edison, the Independent Energy Producers Association, and Dynergy Marketing and Trade ask that the Commission consider adopting here policy framework statements on timely recovery of costs and limiting the risk associated with after-the-fact reasonableness review that would apply beyond 2003 in order for the financial markets to be comfortable with the way this Commission will allow procurement costs to be recovered in the future. Parties may propose specific language that addresses this concern in their testimony provided they address the implications this will have on a permanent cost recovery mechanism that is not limited in its size and range of procurement choices and that may consider issues removed from the scope here.

The Natural Resources Defense Council requests that I expand the list of procurement products to include demand-side options among the short-term power options and Consumers Union specifically cites demand side options such as the Commission's interruptible rate program and the demand-side bidding program. While we are not designing cost recovery mechanisms for demand-side options here, the Commission does expect the respondent utilities to consider all their procurement options in their procurement planning. Demand-side options should be considered side-by-side with other short-term power options.

The fact that the cost recovery mechanisms for demand-side procurement options are not being addressed in this proceeding does not mean that the utilities should not include demand-side options in their procurement plans. I expect the utilities to include demand-side options in their procurement plans, and if they are not included, I expect the utilities to justify their exclusion in the testimony supporting their procurement plans. Any demand-side option included in the utilities procurement plans should be fully described and any deviations from authorized demand-side programs should be justified.

The Commission is addressing demand side options in related current proceedings, not here. In Phase II of our rulemaking on interruptible programs, R.00-10-002, the Commission is specifically addressing what will happen to our interruptible program after December 31, 2002 and is also the forum for considering requests to fund other demand response programs, such as the demand-side bidding program which has been funded by ratepayers through the Department of Water Resources (DWR). In our energy efficiency rulemaking, R.01-08-028, the Commission is currently considering which specific demand-side management programs to fund for 2002 and will open a separate docket to consider 2003 energy efficiency program proposals. I agree that these are important programs and that it is critical to address both demand- and supply-side options. These are programs and approaches our staff will address in proposing an integrated approach to addressing resource needs.

PG&E requests that I expand our list of short-term products to include: sales, exchanges, tolling agreements, and physical gas purchases, and that the adopted options would be applied to both gas and electric purchases. It is reasonable to address a short list of products in this proceeding in order to simplify the mechanism and because I expect the size and range of discretionary procurement choices to be limited in the near term. However, PG&E may sponsor a proposal to include these products in its testimony if it addresses how its proposal meets our stated objectives. The California Energy Commission (CEC) asked if the Commission would consider new market products that meet our definition, such as a day-ahead market operated by the ISO. Parties may address criteria for new products in their testimony, but are cautioned to provide thoroughly detailed recommendations. For example, if the CEC proposes products like a day-ahead market operated by the ISO, it should specifically address whether the Commission should presume the ISO market price reasonable, and how the Commission should judge the utility decision to purchase in the ISO market rather than through other options as may be approved. Parties should detail how the Commission should evaluate whether any specific purchase of any product type - new or old - is reasonable.

Additionally, in testimony regarding short-term physical power products, I would like parties to comment on whether all authorized transactions should be required to have a link to a specific generation facility.

4.2 Transition Issues Need to be Understood and Resolved

DWR was directed to step in to ensure Californian's continued to receive reliable electric service at a time when generators refused to sell energy to the utilities owing to the rapid depletion of their cash and credit. Now, SDG&E's cash and credit situation makes it able to procure the full power needs of its customers. SCE is working to soon be in a restored cash and credit situation, enabling it to also resume procuring its customer's full power needs. All three investor-owned utilities must resume procuring their net short by no later than January 1, 2003, when the DWR authority expires.

I am inclined to propose to my colleagues a decision that directs SDG&E and SCE to resume procuring their full net short in advance of the January 1, 2003 outside date set in statute. Toward that end, I direct the respondent utilities and invite interested parties to file legal briefs that address the required actions, if any, that *must* be undertaken by the Commission for the individual utilities to resume procuring the net short. I also direct the filing of comments on any actions parties believe the Commission *should* take to ensure a successful transition of this responsibility from DWR to the utilities at the earliest possible date. In any comments, I ask parties to discuss what sequence of DWR/respondent utilities actions need to take place to allow for an early transition, and how to best manage this transition process in a setting where specific contracts are being renegotiated. I understand that the utilities request a 60 to 90 day lead time between the date the Commission orders them to resume full procurement and the date they implement full procurement. I am not convinced it is, on balance, in the ratepayers' interest to delay the transition further. Parties should address the advantages and disadvantages of building in such a lead time.

I agree with those parties who note in their comments the critical need for the PUC to resolve two outstanding issues before the utilities may submit meaningful resource procurement plans or resume procuring the net short: 1) allocation among the respondent utilities of the load contracted for by DWR, and; 2) the parameters of Direct Access. Both of these issues have a strong impact on the quantity of energy services that must be procured by the utilities. The parameters for projecting the amount of load to be met under the Direct Access program have been resolved in D.02-03-055. I will pursue resolution of the allocation of load contracted for by DWR in proceedings where a record has already begun to be developed.

In the meantime, for utilities to prepare a procurement plan, I provide the assumptions each should use with respect to allocating the load contracted for by DWR:

> For those contracts with specific delivery points/locations identified, the contract volumes are allocated to the utility in whose service territory the delivery point is located.
>
> Unless delivery points/locations are specified in the contracts, all NP15 contract volumes should be allocated to PG&E and all SP15 volumes to SCE and SDG&E.

SP15 contract volumes, without specific delivery points/locations identified, are allocated among SCE and SDG&E using the following factors:

		SCE	SDG&E
Summer On-Peak		66%	34%
Summer Off-Peak		67%	33%
Winter On-Peak	58%	42%	
Winter Off-peak	42%	58%	

These factors are derived from the utilities' net short positions provided to the Commission.

SP15 contracts with specific delivery points/locations identified within the utility service area should be allocated to the appropriate utility. For example, the Calpeak El Cajon contract volumes should be allocated solely to SDG&E.

In addition to using the above assumptions, the utilities should propose their preferred method for allocating the load contracted for by DWR in their testimony. The utilities should each include their procurement plans for the period beginning with their resumption of their responsibility for procuring the full power needs of their customers to January 1, 2004, in their testimony. These procurement plans should integrate the projected load levels and load characteristics of each respondent utility with their specific procurement strategies for meeting their projected load with both demand and supply-side procurement options.

Each utility's procurement plan should include, at a minimum:

1) 1) A comprehensive and clearly articulated policy and strategy which would justify a selection of any particular energy product or contract at a specific point in time;

2) 2) A definition of the electricity products and related financial products including a justification for the product type and amount to be procured under the plan;

3) 3) The duration, timing, and range of quantities of each product to be procured;

4) 4) An assessment of the price risk associated with each utility's total resource portfolio, including its URG, the products to be procured, demand-side options, and spot market exposure. Each utility should explain what level of price volatility/stability will result from the its procurement plan. The utilities shall also discuss why that level of volatility/stability is appropriate for providing reliable service at reasonable cost;

5) 5) A description of the utility's risk management policy, strategy, and practices including specific measures of price stability;

6) 6) An open and competitive process by which the utility would solicit bids for procurement services;

7) 7) Proposals detailing how the Commission should evaluate whether specific purchases of a particular product type are reasonable;

8) 8) A process for updating the plan in order to respond to changing market conditions; and

9) 9) A description of demand-side options.

The DWR contract allocation issue discussed by parties is before us in our Rate Stabilization Proceeding (RSP), Application (A.) 00-11-038, A.00-11-056, and A.00-10-028. On February 21, 2002, we adopted a decision in the RSP docket, D.02-02-052, that implements cost recovery of the revenue requirements of DWR of amounts to be collected from the customers of the respondent utilities for the period January 17, 2001 through December 31, 2002. That decision establishes a schedule and procedure for an annual DWR update proceeding, with the next update of the DWR revenue requirement to be submitted to the Commission on June 1, 2002, and revised DWR charges to take effect on January 1, 2003.

4.3 Renewables Should be Part of California's Resource Mix

I now turn to how the Commission will address our mandate under Section 701.3 to promote the development of renewable electrical generation in California. As stated earlier, it is my intention to address these issues to the fullest extent possible within the confines of this proceeding and the accelerated timeframe under which we must work, explicitly emphasizing decisions that must be taken to meet the state's needs for 2003.

I have discussed above the Commission's expectation regarding the procurement methods and mechanisms that will be authorized in the interim procurement process. The challenge is to stimulate the purchase of renewable generation utilizing these limited and short-term options, respecting the need for both system reliability and appropriate procedures for reasonableness review. To that end I invite testimony on the following issues:

- Should the Commission adopt a mandatory set-aside for renewable purchases by the investor-owned utilities in short-term transactions and if so, how large should it be? If not, what should be the method whereby the Commission promotes renewable purchases in the interim procurement process?
- How can these purchases be integrated into the generation portfolio of the utilities to ensure system reliability?
- In light of parties' concerns with reasonableness review procedures, how can the Commission establish a mechanism that will facilitate the orderly and expeditious review of short-term renewables purchases?

While I do not anticipate that the Commission would authorize purchases of non-renewable energy or capacity under long-term contract in the interim procurement process, the record in this proceeding should allow the Commission to consider whether or not to authorize such contracts for renewable generation as another method of support pursuant to Section 701.3. I note that ten years ago in the BRPU, the Commission ordered the utilities to acquire over 300 MWs of new renewable resources. In the intervening years, neither those resources nor any appreciable amount of other renewable resources have been added to California's resource supply. I invite testimony on this approach in general and on the following issues in particular:

- How can the Commission establish appropriate reasonableness review procedures in evaluating long-term contracts for renewable generation products of the type and quantity needed for 2003? Are there particular price or contract structure benchmarks the Commission should favor?
- As above, how can system reliability be promoted in this process?
- How can parties best leverage other programs that support renewable generation in California, such as the CEC Renewable Energy Program and the programs under consideration by the Power Authority?

I remind parties that this proceeding explicitly emphasizes interim procurement methods for the immediate issue of restoring the utilities' obligation to serve and meet the needs of their customers no later than January 1, 2003, and that consideration of procurement practices post-2003 will likely involve larger quantities of purchased power and hence greater opportunity for support of renewable generation. Policy proposals should not foreclose options that may be available in later proceedings nor prejudge the outcome of any action underway at the Commission, in the legislature, or elsewhere. My principal objective is to stimulate development of a viable market for the output of renewable generation located within the state of California, and I invite testimony that would aid the Commission in pursuit of that goal in the very near term.

5. Procedural Schedule

The following schedule will be adhered to as closely as possible:

Required Steps for Transition Briefs	April 12, 2002
Comments on Additional Steps for Transition	April 15, 2002
Testimony of respondent utilities served	April 22, 2002
Testimony of interested parties served	May 13, 2002
Rebuttal testimony of all parties served	May 22, 2002
Cross-examination estimates served	May 23, 2002
Proposals for witness order/dates certain served	May 24, 2002
Evidentiary hearings	May 28 - June 4, 2002 Commission Courtroom, State Office Building, 505 Van Ness Avenue, San Francisco, California
Opening briefs filed	June 21, 2002
Reply briefs filed	July 3, 2002
Proposed decision mailed	September 3, 2002
Final Commission decision	October 2002

Pursuant to Rule 8(d), parties requesting final oral argument before the Commission should include that request in their opening brief.

6. Parties, Service, and Service List

The service list for this proceeding is attached to this ruling and any updates will be reflected in the service list on the Commission's website (www.cpuc.ca.gov). Additional parties wishing to participate as a full party to the proceeding must make their request by written motion or on the hearing record; additions to information only or state service can be handled by an e-mail to ALJ Walwyn (cmw@cpuc.ca.gov).

Parties at the PHC discussed the specific details of how testimony and exhibits would be treated under the Electronic Service Protocol attached to the OIR. If specific portions of testimony are not available electronically, the party sponsoring the testimony should inform parties of this and promptly provide written copies of this information upon request. All parties should bring sufficient extra copies of exhibits being offered into evidence to the hearing room so that there is no confusion regarding page numbers. With these clarifications, all parties shall abide by the Electronic Service Protocols set forth in Appendix A.

7. Protective Orders and Treatment of Confidential Information

In its November 27, 2001 proposal, Edison attaches a protective order it requests be used in this proceeding. Several parties objected to this order in their comments.

At the PHC, ALJ McKenzie gave specific guidance on what should be contained in a protective order. Edison's protective order is far-reaching. It proposes, among other things, to provide access to certain confidential information in future filings only to Commission staff. ALJ McKenzie spent considerable time discussing his concerns with this proposal.

Edison agreed to consider the issues raised by ALJ McKenzie and additional issues raised by parties, make changes it found appropriate to its proposed order, submit the revised order to all parties for review, and then arrange for all interested parties to confer with ALJ McKenzie. PG&E and SDG&E agreed to participate in this process and use the protective order ultimately approved by ALJ McKenzie.

IT IS RULED that:

1. 1. This ruling confirms the Commission's preliminary finding in its OIR, issued on October 29, 2001, that the category for this proceeding is ratesetting and that evidentiary hearings are necessary.

2. 2. The ex-parte rules as set forth in Rule 7(c) apply to this proceeding.

3. 3. ALJ Christine M. Walwyn is the principal hearing officer.

4. 4. The scope of this proceeding is described in Section 3 and the schedule is set forth in Section 4.

5. 5. The official service list is attached to this ruling and the Electronic Service Protocols for service are attached at Appendix A. Additional parties wishing to participate as full parties must make their request by written motion or on the hearing record; requests to appear as information only or state service requests should be made by electronic mail to ALJ Walwyn.

6. 6. ALJ Kirk McKenzie will separately handle the issue of the form of protective order to be used for confidential information in this proceeding.

Dated April 2, 2002, at San Francisco, California.

/s/ LORETTA LYNCH
Loretta Lynch
Assigned Commissioner

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail, to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Assigned Commissioner's Ruling Establishing Category and Providing Scoping Memo on all parties of record in this proceeding or their attorneys of record.

Dated April 2, 2002, at San Francisco, California.

/s/ TERESITA C. GALLARDO
Teresita C. Gallardo

NOTICE

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

* *
* * *

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.

APPENDIX A

ELECTRONIC SERVICE PROTOCOLS

Party Status in Commission Proceedings

These electronic service protocols are applicable to all "appearances." In accordance with Commission practice, by entering an appearance at a prehearing conference or by other appropriate means, an interested party or protestant gains "party" status. A party to a Commission proceeding has certain rights that non-parties (those in "state service" and "information only" service categories) do not have. For example, a party has the right to participate in evidentiary hearings, file comments on a proposed decision, and appeal a final decision. A party also has the ability to consent to waive or reduce a comment period, and to challenge the assignment of an Administrative Law Judge (ALJ). Non-parties do not have these rights, even though they are included on the service list for the proceeding and receive copies of some or all documents.

Service of Documents by Electronic Mail

For the purposes of this proceeding, all appearances shall serve documents by electronic mail, and in turn, shall accept service by electronic mail.

Usual Commission practice requires appearances to serve documents not only on all other appearances but also on all non-parties in the state service category of the service list. For the purposes of this proceeding, appearances shall serve the information only category as well since electronic service minimizes the financial burden that broader service might otherwise entail.

Notice of Availability

If a document, including attachments, exceeds 75 pages, parties may serve a Notice of Availability in lieu of all or part of the document, in accordance with Rule 2.3(c) of the Commission's Rules of Practice and Procedure.

Filing of Documents

These electronic service protocols govern service of documents only, and do not change the rules regarding the tendering of documents for filing. Documents for filing must be tendered in paper form, as described in Rule 2, *et seq.*, of the Commission's Rules of Practice and Procedure. Moreover, all filings shall be served in hard copy (as well as e-mail) on the assigned ALJ.

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ELECTRONIC SERVICE PROTOCOLS

Electronic Service Standards

As an aid to review of documents served electronically, appearances should follow these procedures:

> Merge into a single electronic file the entire document to be served (*e.g.*, title page, table of contents, text, attachments, service list).
>
> Attach the document file to an electronic note.
>
> In the subject line of the note, identify the proceeding number; the party sending the document; and the abbreviated title of the document.
>
> Within the body of the note, identify the word processing program used to create the document. (Commission experience indicates that most recipients can open readily documents sent in Microsoft Word or PDF formats.)

If the electronic mail is returned to the sender, or the recipient informs the sender of an inability to open the document, the sender shall immediately arrange for alternative service (paper mail shall be the default, unless another means is mutually agreed upon).

Obtaining Up-to-Date Electronic Mail Addresses

The current service lists for active proceedings are available on the Commission's web page, www.cpuc.ca.gov. To obtain an up-to-date service list of e-mail addresses:

> Choose "Proceedings" then "Service Lists."

ELECTRONIC SERVICE PROTOCOLS

- • Scroll through the "Index of Service Lists" to the number for this proceeding.

- • To view and copy the electronic addresses for a service list, download the comma-delimited file, and copy the column containing the electronic addresses.

The Commission's Process Office periodically updates service lists to correct errors or to make changes at the request of parties and non-parties on the list. Appearances should copy the current service list from the web page (or obtain paper copy from the Process Office) before serving a document.

Pagination Discrepancies in Documents Served Electronically
Differences among word-processing software can cause pagination differences between documents served electronically and print outs of the original. (If documents are served electronically in PDF format, these differences do not occur.) For the purposes of reference and/or citation in cross-examination and briefing, all parties should use the pagination found in the original document.

(END OF APPENDIX A)

APPENDIX B

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(END OF APPENDIX B)